VZCZCXRO3559
RR RUEHDE
DE RUEHMS #0939/01 2810623
ZNY CCCCC ZZH
R 080623Z OCT 07
FM AMEMBASSY MUSCAT
TO RUEHC/SECSTATE WASHDC 8839
INFO RUEHAD/AMEMBASSY ABU DHABI 0969
RUEHDE/AMCONSUL DUBAI 0348
RUCPDOC/DEPT OF COMMERCE WASHDC

C O N F I D E N T I A L SECTION 01 OF 02 MUSCAT 000939

SIPDIS

SIPDIS

STATE FOR NEA/ARP, EEB/CBA
COMMERCE FOR COBERG

E.O. 12958: DECL: 10/07/2017
TAGS: ECON EINV MU
SUBJECT: OBSTACLES HINDER SALALAH FREE ZONE GROWTH

Classified By: CDA Alfred F. Fonteneau for Reasons 1.4 (b and d)

Summary

¶1. (SBU) Economic projects continue to emerge at the Salalah Free Zone, where several anchor companies are in the process of establishing operations. Obstacles remain in terms of energy availability and infrastructure suitability, however, which might stunt the free zone's further growth. A proposed partnership with Dubai's Jebel Ali Free Zone remains stuck under study amidst Omani concerns. End summary.

Incentives Draw Customers...

¶2. (SBU) On October 3, Econoff reviewed the development of the Salalah Free Zone with Salalah Free Zone Company (SFZC) Deputy CEO Mohammed al-Theeb. (Note: The industrial development of the southern city of Salalah is an important government objective in promoting equitable economic growth and job opportunities throughout Oman. End note.) Theeb noted that the zone was moving forward with its master plan of developing two land parcels -- one approximately 800 hectares in size, the other roughly 1900 hectares. Work continues on completing the first phase of the project, which includes the establishment of roads and utility lines, as well as the leveling of planned industrial plots. In addition, the government has finalized a competitive incentive package for prospective tenants, including a 30-year tax holiday, duty-free treatment of imports and exports, permission for 100% foreign ownership, tax-free repatriation of profits, and a low Omanization requirement of 10%.

¶3. (SBU) With these incentives in place, Theeb noted that the three anchor tenants, U.S.-based Octal Petrochemicals, India-based TVS Group, and government-supported Salalah Methanol, have already begun construction on their respective facilities. He remarked that SFZC also has finalized a contract with a vitamin/energy bar producer and was close to concluding a contract with a steel company, which is interested in occupying 1.5 million square meters of land. These industries will join another company that plans on producing 300,000 tons of PET (polyethylene terephthalate) resin by April 2008. Of the incentives on offer, Theeb noted that the most attractive to clients so far has been the lower Omanization rate requirement, which will enable these companies to hire cheaper South Asian labor.

...But There Are Obstacles to Overcome

¶4. (SBU) Theeb identified energy as the most important constraint hindering the growth of the free zone, as the now tight supply of natural gas is thwarting approvals for gas-based industrial projects. Theeb remarked that there are currently "serious inquires" totaling $6 billion in potential investment that need access to cost-effective gas reserves. The government is aware of the gas shortage's impact on Salalah's development, according to Theeb, and is making efforts to increase the supply of gas to Salalah.

¶5. (SBU) Theeb added that the lack of sufficient infrastructure in Salalah to accommodate the zone's future growth plans could stunt growth. On the positive side, Theeb commented that both National Economy Minister Ahmed bin Abdul Nabi Macki and Commerce and Industry Minister Maqbool bin Ali Sultan have been supportive of the SFZC's request for additional infrastructure improvements. For example, the government gave 4 million Omani rials (USD 10.4 million) to enhance the zone's utility network, as well as an undisclosed amount to augment water access. Nevertheless, the deputy CEO noted that the planned 400MW power station to be constructed for Salalah was not enough for the needs of the zone, which anticipates needing 400MW alone in 10 years. For this reason, the company will not accept additional clients until it resolves the question of utility availability.

¶6. (C) Theeb also expressed concern about the execution of a 2006 memorandum of understanding with the Jebel Ali Free Zone. Even though the SFZC is supportive of the partnership, the deputy CEO believes that there are those in the government who are not as keen on it. At issue is the 50% stake Jebel Ali is requesting, as well as the willingness of

the Omani Ministry of Finance to inject 32 million Omani rials (USD 83 million) to develop an additional 5.6 hectares of land. Theeb speculated that there is concern in the government that Jebel Ali will eventually take over the zone, or conversely, use Salalah as a dumping ground for second-tier candidates. He lamented that the interest is there (52 out of 120 companies based in Jebel Ali are interested in investing in Salalah), but that the length of time it may take for the Omani government to make a decision might cost SFZC promising investors.
FONTENEAU